

Industry **Automobiles**  
 Bloomberg **AL IN**  
 BSE CODE **500477**

## Overall profitability to remain under pressure in FY20

RATING	NEUTRAL
CMP	70
Price Target	80
Potential Upside	14%
Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	135/67
Mkt Capital (Rs Cr)	20519
Free float (%)	49%
Avg. Vol 1M (,000)	20017
No. of Shares (Crs)	294
Promoters Pledged %	0%

### 1QFY20 Result Update

- ASHOKLEY revenue for the quarter declined by 9% YoY to Rs.5684 crores (vs. our estimates of Rs. 5927 crores) due to 6% YoY decline in volume. Realization also declined by 3% YoY due to heavy discounting practices in the industry. The M&HCV volumes declined by 13% YoY while LCV volumes grew by 12% YoY.
- The tractor trailer segment and tippers segment, especially in western parts of the country remained impacted during the quarter and it is expected to remain the same going forward.
- On the exports front, markets in UAE and Sri Lanka remained impacted while Nepal and Bangladesh markets did well.
- Gross margin expanded by 277 bps to 30.1% QoQ led by softening of commodity prices and favorable product mix. However, EBITDA margin declined by 169 bps to 9.4% QoQ largely due to weaker operating leverage.
- PAT for the quarter also declined by 38% YoY to Rs.230 crores (vs our estimates of Rs.313 crores). PAT margins also declined by 335 bps QoQ to 4% due to higher tax expenses due to expiration of Pantnagar plant benefit and also last year there was loss in LCV JV which led to lower tax for FY19.
- Inventory level stands at 1-1.5 months. By the end of Q2FY20, there will be rationalization of inventory level and expected to come down by September 2019.

### View and Valuation

ASHOKLEY has reported 170bps reduction in EBITDA margin on sequential basis due to weaker operating leverage. The domestic CV industry continues to struggle with weak demand and higher inventory levels while exports outlook also remained challenging as per the management. There has been a decline of 28%YoY in July volumes. The margin profile may also remain flat for FY20. Higher tax rate of 33-35% (earlier 28-29%) due to expiration of Pantnagar plant benefit will also weigh on overall profitability. However, the development towards LCVs and modular platform may help to improve margins by 100-150bps on full ramp up in FY21-22. Hence we reduce our EPS estimate for FY20/21 by 21%/18%. We value standalone business at 12x FY21e EPS and Rs.8 per share for HLFL to arrive at a target price of Rs.80 and recommend NEUTRAL.

### Key Risks to our rating and target

- Increase in discounts on MHCVs
- Slowdown in MHCV demand

### RESEARCH ANALYST

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	20019	26248	29055	28074	31020
EBITDA	2203	2739	3136	3081	3239
EBIT	1685	2184	2515	2432	2527
PAT	1223	1563	1983	1654	1739
EPS (Rs)	4.3	5.3	6.8	5.6	5.9
EPS growth (%)	214	24	27	-17	5
ROE (%)	20	22	24	19	18
ROCE (%)	23	29	29	27	27
BV	22	24	28	30	32
P/B (X)	3.9	6.6	3.2	2.3	2.1
P/E (x)	19.4	30.2	13.5	12.2	11.6

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## Results better than expectation

### 1QFY20 Results

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes	42128	51958	43763	59521	39608	-6%	-33%	174830	197370	12.9%
Realization('000/vehicle)	1,484	1,467	1,445	1,486	1,435	-3%	-3%	1501	1472	-1.9%
Net Sales	6,250	7,621	6,325	8,846	5,684	-9%	-36%	26,248	29,055	10.7%
Other Income	50	28	21	9	21	-58%	132%	190	110	-42.1%
Total Income	6,300	7,649	6,346	8,855	5,705	-9%	-36%	26,438	29,165	10.3%
COGS	4,351	5,498	4,436	6,429	3,974	-9%	-38%	18,621	20,680	11.1%
Staff Cost	493	525	500	573	500	2%	-13%	1,812	2,099	15.8%
Other Exp.	758	769	740	858	673	-11%	-22%	3,076	3,141	2.1%
Expenditure	5,603	6,792	5,676	7,860	5,147	-8%	-35%	23,509	25,919	10.3%
EBITDA	648	829	650	985	537	-17%	-46%	2,739	3,136	14.5%
Depreciation	143	148	161	160	165	15%	3%	555	621	12.0%
EBIT	505	681	489	826	372	-26%	-55%	2,184	2,515	15.1%
Interest	12	20	19	17	13	8%	-24%	131	70	-46.4%
PBT	543	688	491	818	381	-30%	-53%	2,243	2,554	13.9%
Excpt. Item	15	19	6	12	20	0%	0%	(13)	(55)	0.0%
Tax	152	143	103	153	131	-14%	-15%	668	514	-23.1%
PAT	370	528	381	653	230	-38%	-65%	1,563	1,983	26.9%

#### Revenue declined due to lower volumes and realization growth

The revenue for the quarter declined by 9% YoY primarily driven by 6% YoY decline in volume growth while realization also declined by 6% YoY due to higher discounting and shift towards lower tonnage vehicles.

The M&HCV volumes declined by 13% YoY to 26719 units due to financing issues and axle load norms issues. The tractor trailer segment and tippers segment, especially in western parts of the country remained impacted during the quarter and it is expected to remain the same going forward. The LCV volumes have increased by 12% YoY to 12889 units. The demand was triggered by increasing last mile connectivity across rural markets. Exports market has witnessed decline due to markets in UAE and Sri Lanka remained impacted. However, Nepal and Bangladesh markets did well.

#### Softening of commodity prices and favorable product mix expanded gross margins

Gross margin expanded by 277 bps to 30.1% QoQ led by softening of commodity prices and favorable product mix. However, EBITDA margin has declined by 169 bps to 9.4% QoQ due to weaker operating leverage.

#### Higher tax expenses led to declined PAT growth

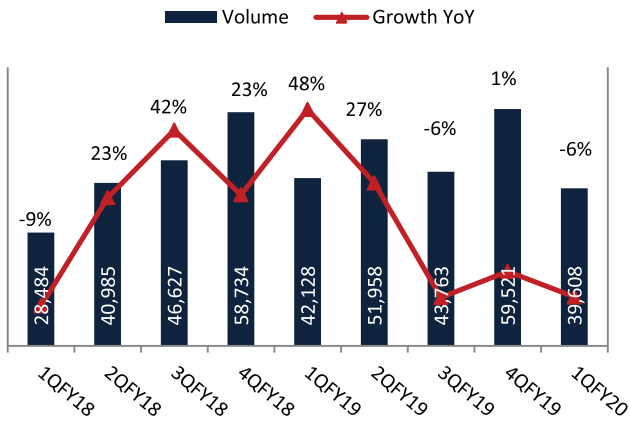
PAT for the quarter also declined by 38% YoY to Rs.229 crores (vs our estimates of Rs.313 crores). PAT margins also declined by 335 bps QoQ to 4% due to higher tax expenses due to expiration of Pantnagar plant benefit and also last year there was loss in LCV JV which led to lower tax for FY19. Going forward, tax rate is expected to remain the level of 33-35%.

#### Concall highlights

- The total industry volume went down to 17% to 17371 units due to high base effect last year.
- The management expects the full year FY20 to remain flattish. Q2FY20 and Q3FY20 are expected to remain strong due to pre buy ahead of BS-VI.
- Demand has remained challenging in 1QFY20 both in domestic as well as international markets. And it is expected to remain challenging going forward.
- The company expects to see traction in the exports market in H2FY20 led by various buses orders received by the company.
- The management expects to improve market share in LCVs going forward. Currently it is at 18.5%.
- Defense revenue for the quarter was less than 50 crores. The management expects to receive defense orders from H2FY20.
- The company has shutdown the plants during 1QFY20 in order to correct inventory.
- The capacity utilization is at 55-60% level.
- Working capital for the quarter was Rs. 670 crores.
- Net debt in 1QFY20 stood at Rs. 510 crs.
- Inventory level stands at 1-1.5 months. By the end of Q2FY20, there will be rationalization of inventory level and expected to come down by September 2019.

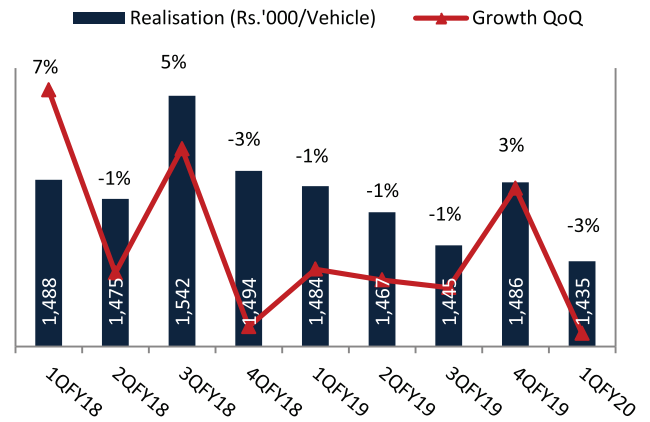
## Exhibit: Volume and Volume Growth Trend

Volumes declined due to slowdown in consumer sentiments across domestic and international markets



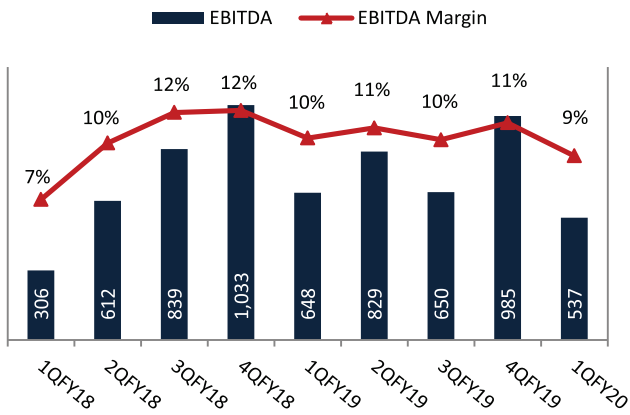
## Exhibit: Realisation and Realisation Growth Trend

Realisation declined led by heavy discountings across industry



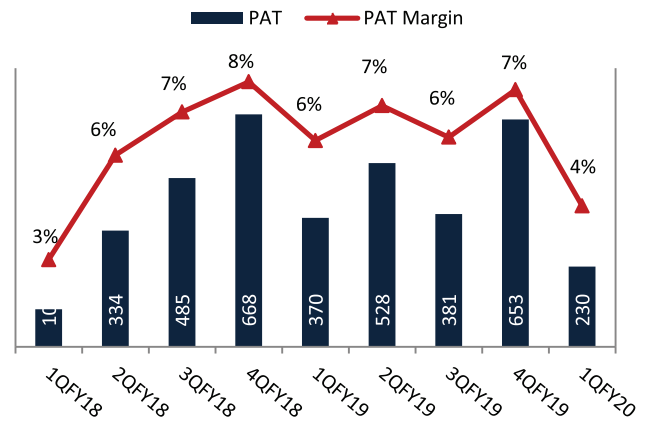
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Weaker operating leverage led to decline in EBITDA margins



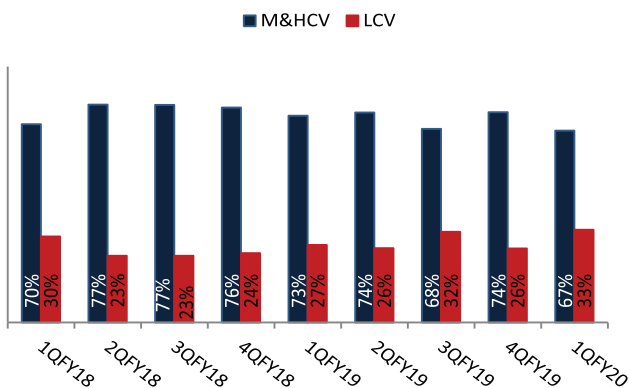
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher tax expenses led to declined PAT growth



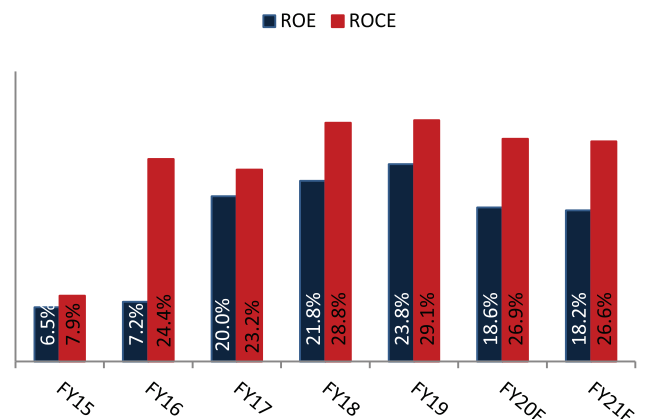
## Exhibit: Product Mix in M&HCV Segment

Despite strong sales of higher tonnage trucks product mix shifted towards LCVs.



## Exhibit: Return Ratios

As the profitability improves going ahead return ratios will follow the same



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	266	285	285	285	293	294	294	294
Reserves	4,182	4,834	5,123	5,841	6,872	8,039	8,597	9,241
Networth	4,448	5,119	5,408	6,126	7,165	8,332	8,891	9,534
Debt	3,884	2,591	1,846	1,345	516	398	257	83
Other Non Cur Liab	477	591	481	299	757	501	492	518
Total Capital Employed	7,744	7,685	7,229	7,272	7,580	8,631	9,048	9,518
Net Fixed Assets (incl CWIP)	5,841	5,376	4,868	5,177	5,375	5,822	6,249	6,521
Non Cur Investments	2,405	2,240	1,980	2,002	2,747	2,637	2,666	2,700
Other Non Cur Asst	1,035	1,002	633	588	509	986	986	986
Non Curr Assets	9,281	8,618	7,593	7,940	8,716	10,038	10,495	10,800
Inventory	1,189	1,399	1,625	2,501	1,710	2,685	2,461	2,720
Debtors	1,299	1,258	1,251	860	980	1,365	1,319	1,457
Cash & Bank	12	751	1,593	912	1,004	31	103	199
Other Curr Assets	1,027	1,285	586	1,312	3,797	3,630	2,803	3,057
Curr Assets	3,527	4,693	5,181	5,737	7,870	8,186	7,163	7,909
Creditors	2,214	2,828	2,563	3,052	4,659	5,019	4,850	5,358
Provisons (both)	88	256	189	484	616	-	-	-
Other Curr Liab	1,697	1,926	2,113	2,446	2,861	2,077	2,061	2,109
Curr Liabilities	3,999	5,011	4,865	5,982	8,147	8,689	7,713	8,270
Net Curr Assets	(472)	(318)	316	(246)	(277)	(503)	(550)	(361)
Total Assets	12,808	13,311	12,774	13,800	16,586	18,224	17,657	18,709

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>9,943</b>	<b>13,562</b>	<b>18,937</b>	<b>20,019</b>	<b>26,248</b>	<b>29,055</b>	<b>28,074</b>	<b>31,020</b>
Change (%)	(20)	36	40	6	31	11	(3)	10
Other Income	116	124	118	136	190	110	95	101
<b>EBITDA</b>	<b>117</b>	<b>1,027</b>	<b>2,255</b>	<b>2,203</b>	<b>2,739</b>	<b>3,136</b>	<b>3,081</b>	<b>3,239</b>
Change (%)	(87)	778	120	(2)	24	14	(2)	5
<b>Margin (%)</b>	<b>1.2</b>	<b>7.6</b>	<b>11.9</b>	<b>11.0</b>	<b>10.4</b>	<b>10.8</b>	<b>11.0</b>	<b>10.4</b>
Depr & Amor.	377	416	488	518	555	621	649	712
EBIT	(260)	610	1,767	1,685	2,184	2,515	2,432	2,527
Int. & other fin. Cost	453	394	248	155	131	70	52	33
<b>EBT</b>	<b>(597)</b>	<b>341</b>	<b>1,637</b>	<b>1,666</b>	<b>2,243</b>	<b>2,554</b>	<b>2,476</b>	<b>2,595</b>
Exp Item	506	101	(815)	(351)	(13)	(55)	-	-
Tax	(121)	107	437	107	668	514	822	856
Minority Int & P/L share of Ass.								
<b>Reported PAT</b>	<b>29</b>	<b>335</b>	<b>390</b>	<b>1,223</b>	<b>1,563</b>	<b>1,983</b>	<b>1,654</b>	<b>1,739</b>
<b>Adjusted PAT</b>	<b>29</b>	<b>335</b>	<b>390</b>	<b>1,223</b>	<b>1,563</b>	<b>1,983</b>	<b>1,654</b>	<b>1,739</b>
Change (%)	(93)	1,040	16	214	28	27	(17)	5
<b>Margin(%)</b>	<b>0.3</b>	<b>2.5</b>	<b>2.1</b>	<b>6.1</b>	<b>6.0</b>	<b>6.8</b>	<b>5.9</b>	<b>5.6</b>

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	1%	7%	7%	20%	22%	24%	19%	18%
ROCE	-3%	8%	24%	23%	29%	29%	27%	27%
Asset Turnover	0.8	1.0	1.5	1.5	1.6	1.6	1.6	1.7
Debtor Days	48	34	24	16	14	17	17	17
Inv Days	44	38	31	46	24	34	32	32
Payable Days	81	76	49	56	65	63	63	63
Int Coverage	(1)	2	7	11	17	36	47	76
P/E	214.6	29.3	79.3	19.4	30.2	13.5	12.2	11.6
Price / Book Value	1.4	1.9	5.7	3.9	6.6	3.2	2.3	2.1
EV/EBITDA	100	15	16	14	20	12	7	6
FCF per Share	349	1,571	1,533	1,789	4,886	(361)	602	1,572
Div Yield	0.0%	1.3%	0.9%	1.9%	1.5%	3.4%	4.5%	4.5%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	(91)	442	1,169	1,223	1,563	2,554	2,476	2,595
(inc)/Dec in Working Capital	370	705	(128)	190	2,962	(1,588)	(677)	72
Non Cash Op Exp	377	416	444	518	555	621	649	712
Int Paid (+)	453	394	274	155	131	70	52	33
Tax Paid	(30)	(50)	(441)	(348)	(415)	(514)	(822)	(856)
others	(523)	(130)	358	13	(106)	13	-	-
CF from Op. Activities	556	1,777	1,676	2,155	5,418	706	1,678	2,556
(inc)/Dec in FA & CWIP	(220)	(211)	(147)	(378)	(537)	(1,068)	(1,076)	(984)
Free Cashflow	337	1,565	1,529	1,776	4,881	(361)	602	1,572
(Pur)/Sale of Inv	481	(49)	854	(2,166)	(2,880)	661	759	(174)
others	138	387	154	(28)	85	-	-	-
CF from Inv. Activities	(110)	102	388	(1,477)	(3,332)	(407)	(317)	(1,158)
inc/(dec) in NW	(7)	671	289	719	1,039	1,168	558	643
inc/(dec) in Debt	183	(1,424)	(783)	(773)	(1,154)	(117)	(141)	(174)
Int. Paid	(436)	(406)	(296)	(164)	(146)	(70)	(52)	(33)
Div Paid (inc tax)	(187)	-	(154)	(325)	(549)	(859)	(1,095)	(1,095)
others	-	667	-	-	5	-	-	-
CF from Fin. Activities	(449)	(1,179)	(1,233)	(1,372)	(1,961)	(1,046)	(1,288)	(1,302)
Inc(Dec) in Cash	(2)	699	830	(694)	125	(747)	72	96
Add: Opening Balance	8	5	705	1,563	869	994	9	81
Closing Balance	5	705	1,538	869	994	247	81	177

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